

# Chain Store Age EXECUTIVE

with Shopping Center Age  
The newsmagazine for retail operations

January 1981

Preview:  
NRMA Convention  
and ICSC University

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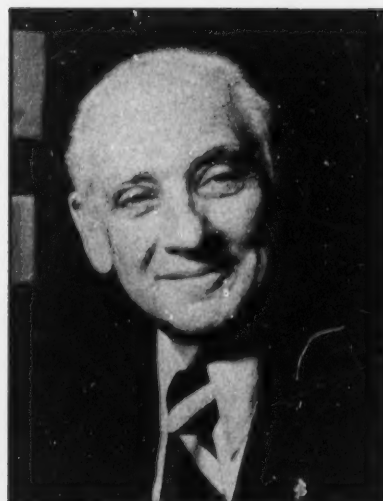
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TWENTY DOLLARS A YEAR (USA)

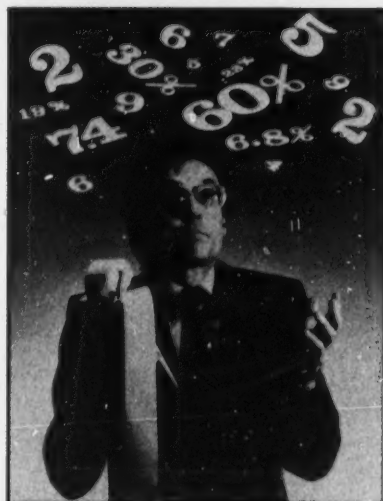
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# Prepare for the 'new math'

Whether or not the 1980 recession ended or has become the 1981 recession is a purely academic issue, to be debated by economists and Wall Street investors. The hard facts, though, are these: Because of the slowdown in the economy, retail sales will continue to be difficult to capture all through this year, with some segments, such as drug chains and higher-priced fashion-oriented general merchandise and apparel specialty stores, outpacing the field. Food prices continue to lead the way in consumer-product inflation but not to the point that they've increased gross margins of supermarket chains.

As one leading observer of the retail scene, Howard Davidowitz of the accounting firm of Ernst & Whinney notes, the decade of the 1980's has brought a whole "new mathematics" to retailing. By that, he means that the ratio of pretax profits to sales in department stores that traditionally ranged between 6% and 7%, and about 4% in discount stores, will be reduced by 50% within the next five to eight years.

Why this new math?

- The cost of construction is rising

about 20% a year.

- New forms of retailing such as flea markets and vendor outlet malls are taking away business from traditional outlets (see accompanying story).

- Retail stores are spending more money for promotions to increase volume and to improve the ambience and fashion look of their

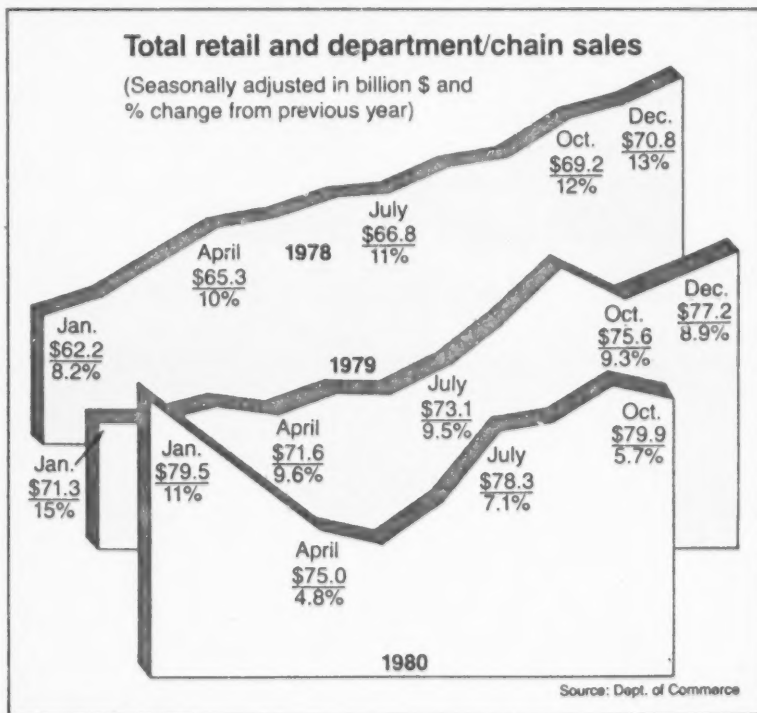
newly elected president Ronald Reagan and his Republican-controlled Senate, projections are for one of the most persistent periods of high unemployment of any business recovery since World War II.

The forecasts of a slow recovery are pinned, in some part, to the high rate of inflation, which is causing the Federal Reserve to tighten credit and push up interest rates,

resulting in damage to sales of housing, autos and related industries. The *Blue Chip Economic Indicator*, a Sedona, Ariz., newsletter that polls 40 forecasters, predicts that average unemployment during 1981 will be 7.8% of the workforce, compared with 7.6% in October 1980.

Other signs aren't upbeat, either. The revised gross national product data showed that, before inflation adjustment, the total value of the nation's goods and services rose

to a \$2.587 trillion annual rate in the third quarter of 1980 from \$2.521 trillion in the second quarter. Adjusted for inflation, however, the revised third-quarter output total registered at an annual rate of \$1.412 trillion, down about \$300 million from an earlier estimate.



stores.

Despite lofty pronouncements by a number of economists at the beginning of the fourth fiscal quarter of 1980, most indicators point to a continuation (or a recurrence) of last year's recession.

Despite the changes promised by

Corporate profits as reported by the Commerce Department rose 7.9% in the third quarter to a seasonally adjusted \$137.2 billion annual rate, recovering about 40% of the second quarter's 19.6% drop to an adjusted \$127.1 billion annual rate. But when third-quarter profits were adjusted for both taxes and inflation, they showed a decline of 2.8% to an adjusted \$73.1 billion annual rate from the \$75.2 billion level



Donald Seibert of J. C. Penney: "We want to be at the price points where the action is."

in the second quarter.

The Commerce Department also reported that the increase in housing starts in October 1980 slowed to a weak 1.6% from a revised 1.8% in September. Michael Sumichrast, chief economist for the National Association for Home Builders, says



Howard Davidowitz: Retailers have spend money measuring productivity but not increasing it.

the figures were misleading because they don't reflect how bad things really are. Builders estimated housing starts for the year just ended were about 1.22 million, down from 1.75 million in 1979 and

about 2.0 million in both 1973 and 1977.

Jeffrey B. Edelman, first vp, Dean Witter Reynolds, says that until 1980, gross and real income, which were under pressure from inflation on a per capita basis, were propelled forward because of the growth of employment. Spending was aided by increases in consumer debt and a decrease in personal savings. In 1980, however, employment and consumer credit decreased and personal savings increased, adversely affecting buying.

"I don't expect to see strong

sales recovery until there is further growth in employment and a sharp reduction in the rate of inflation," says Edelman. He adds, however, that retailing probably saw its worst period in the third quarter.

Says Walter F. Loeb, senior retailing analyst at Morgan Stanley & Co.: "Frankly, the consumer is at the crossroads. He feels threatened by the high cost of food, high cost of energy, high housing costs and high taxes. Everything points to continued high inflation, and he's discouraged. What's more, many people feel their employment is threat-

## What's in store for retailing?



Flea markets, salvage store chains, vendor outlet malls and shopping at home via television are part of the wave of the retailing future for the 1980's.

This isn't conjecture. They've already begun to appear on the retailing scene in various manifestations, say two highly regarded observers of retailing: Howard Davidowitz, a partner and retailing consultant for the firm of Ernst & Whinney, and Walter F. Loeb, senior analyst for the retail trade at Morgan Stanley & Co.

Traditional discounters are abandoning the fastest-growing segment of the population—lower-income families—but upscaling their merchandise and stores, thus creating new marketing opportunities for the 1980's, says Davidowitz.

"Driving in from Kennedy [airport in New York] yesterday, I passed four flea markets," he says. Davidowitz, who is in a different city around the country practically every day of the business week, adds that there are also hundreds of vendor outlets around the United States.

Concerning flea markets, he says that most discounters are acting the way department stores did when discounters first made their appearance on the retailing scene several decades ago: "They're burying their heads in the sand. Everywhere I go around the country, I see flea markets. The discounters aren't talking about it."

Interviewed on one of his infrequent days in his Manhattan office, Davidowitz says: "I predict that discounters are going to wake up one morning and admit it's happening." Then, he adds, the discounters will take some action. He predicts that they will:

- Start to institutionalize and organize the flea markets;
- Open salvage stores as a reaction to the flea markets.

At the same time, manufacturers will continue to open their

ened. The consumer's discretionary spending ability has eroded tremendously since the 1960's. As a matter of fact, a study that we have just concluded underscores our belief that the average consumer has little discretionary spending left."

Loeb says that the consumer is in a hostile environment but that he is trying to adjust to high energy costs, trying to live within his budget and cut down on nonessentials. He is less likely to buy frivolous items and instead will look for value both in high-priced quality merchandise and low-priced promo-

tional merchandise.

Donald V. Seibert, chairman of J. C. Penney, doesn't disagree, but says that "if you analyze what's happening, you'll find the tonnage items are at the moderate and upper price points. We want to be at the price points where the action is."

The current fiscal fourth quarter ending this month should result in retail industry sales rising about 6%, bringing the full-year gain to about 5.75%, he says. After an anticipated inflation factor of 7%, says Seibert, real GAF (general, appli-



**Allied Stores' Thomas Macioce believes that first-quarter retail sales in 1981 will be flat.**



own off-price outlets, especially in malls catering to bargain hunters.

(For the uninitiated, a flea market consists of various vendors who assemble in one place to sell their goods. Salvage stores, on the other hand, usually are owned by one person or company, and specialize in selling close-out merchandise. They have one thing in common: a lack of continuity in the merchandise.)

The irony of today's retailing, explains Davidowitz, is that the fastest growing segment of the population is the lower-income group, and this is the group from which discounters are trading up and away. As described by Davidowitz, this family consists of four persons and has an annual income of about \$16,000. If the head of the household works in the auto industry, it's likely that the person is unemployed, with his unemployment insurance or union payments about to run out. The discounters that traditionally catered to this family are now upgrading their stores to a more affluent customer.

On the subject of electronic technology in consumer shopping, Morgan Stanley's Loeb comments that the emerging role of electronics in relation to shopping hasn't yet been fully recognized or resolved. How electronics will affect the physical shopping pattern of the future is an important new stage of development, he says.

"A retailer who can reach customers 24 hours a day is beating his competition in a very effective way," says Loeb. "Every retailer, in my opinion, must explore this new opportunity."

Recently, Federated Department Stores purchased a minority interest in Comp-U-Card of America, an electronic shop-at-home service. "We believe they are on the leading edge of a new development that may include cable television and direct-response cable," concludes Loeb.

ance and furniture) sales will be down about 1.25% from a year earlier.

He adds: "For 1981, we expect general merchandise inflation to move from 7.5% to 6.5% over the course of the year. We would look for real retail sales to show positive growth by the second quarter, with an anticipated full-year total gain of 8.5%, or 1.5% to 2% in real terms."

Thomas M. Macioce, president and ceo of Allied Stores, looks to the first-quarter retail sales of 1981 to be flat, compared with those of a year earlier (and those figures weren't too good). He sees a pickup in business in the second quarter with an increase in employment. One reason for the pickup, says Macioce, is that manufacturers should be making capital improvements with expected favorable tax-credit treatment from the Reagan Administration.

Barton Biggs, managing director and partner of Morgan Stanley, forecasts a modest gain in the fourth quarter just ending, with a negative first half year in 1981 in real growth and a sluggish recovery

### **'You've got to merchandise your way out of trouble'**

in the fourth quarter. He projects an upsurge of inflation in the world in the first half of 1981 with food leading the way, plus major increases in OPEC oil prices.

One area of retailing that most observers agree will continue to flourish this year is the drug store business. Chain drug retailing has a number of recession-resistant characteristics that make its prospects attractive on both a near- and long-term basis, says Terence J. McEvoy,

# GRAY DRUG



**Inflation-resistant characteristics make the drug store industry one of the few industries with a bright future ahead.**

vp and analyst at Dean Witter Reynolds.

**Industry profits** should continue to rise during the coming quarters of economic uncertainty because of the low-cost replacement nature of the bulk of the product line, prescriptions, over-the-counter drugs, and health and beauty aids, he says. "Over the longer term, the larger chains with only about 30% of industry sales are expected to make further substantial inroads into the share held by the independents and the numerous small [less than 10-store] chains," he says.

Among general merchandise stores, probably the biggest earnings improvement and the worst surprise occurred in the discount industry in the third fiscal quarter. Wal-mart checked in with a 30% increase in earnings to \$13.3 million, or 81 cents a share, in the fiscal third quarter ended Oct. 31, compared with \$9.5 million, or 62 cents a share, a year earlier. Sales rose 34% to \$401.8 million from \$300.7 million a year earlier.

The big surprise, however, was K mart, the nation's largest discount chain and second-largest general merchandise chain, which reported a 60% drop in earnings in the third quarter ended Oct. 29 to \$30.6 million, or 25 cents a share. This was as much as 34% below what some Wall Street analysts were forecasting.

**K mart cited disappointing sales**, reflecting the general economy's sluggishness and related pressures on its costs. Sales in the 13-week period rose 10% to \$3.37 billion. "The continued softness in consumer demand and increased promotional activity resulted in gross profit margins for the 13-week period which were below our expect-

tations," a K mart spokesman says, adding that selling, general and administrative expenses for the third quarter were 25% of sales, up from 23.1% a year earlier.

David Taylor, vp research, Donaldson, Lufkin & Jenrette, notes that the 10% sales increase was actually even less if the results of Furr's cafeterias, purchased earlier in the year were factored out.

Sears, Roebuck's 36% decline in profit for the fiscal third quarter ended Oct. 31 was not a surprise. The decline for the nation's largest

## **'You've got to merchandise your way out of trouble'**

retailer included a 48% drop in retail operating earnings and a pretax loss from Allstate's property-liability insurance operations.

Sears reported earnings of \$135.5 million, or 43 cents a share, on revenues of \$6.46 billion in the third quarter, compared with profit of \$212.1 million, or 67 cents a share, on revenues of \$6.33 billion a year earlier. Sears has been reorganizing its merchandising operations, including the early retirement of three of its top five retailing group executives.

**The Sears merchandising group** reported operating profits of \$55 million for the quarter, down 48%, before the early-retirement allowance of \$20 million. Retail revenue fell 1% to \$4.35 billion.

J. C. Penney, the nation's third-largest general merchandise retailer, surprised analysts with only a 10% decline in third-quarter profits to \$54 million, or 76 cents a share, on a 3.2% sales increase. The company had reported much larger

decreases in the first two quarters of the current fiscal year.

The slightly improved sales gain coupled with strict expense control enabled Penney to narrow its earnings decline in the third quarter, contrasted with the 60% to 70% declines in the first two quarters, the company says.

Other third-quarter reports by department store chains include: Allied Stores, down 9.3%; Carter Hawley Hale, down 14%; Federated Department Stores, 1.7% decline in operating profits and May Department Stores, 4.1% decline. Dayton Hudson's third-quarter earnings from its retail operations were flat compared with a year earlier. Total earnings rose 14% because of a gain from discontinued real estate operations.

R. H. Macy and Associated Dry Goods both reported increased quarterly earnings, Macy's profit in its fiscal first quarter increased 2.5% on an 11% sales advance, and Associated posted a surprisingly strong 10% earnings boost in its third quarter on an 8% sales increase.

**According to analysts**, these latter two results reflect the growing belief that stores that cater to higher income individuals are more apt to hit improved profits than other types of retailers.

"We see a major segmentation among customers," says Morgan Stanley's Loeb. "We see an upper-income customer still spending quite freely because of multiple incomes of working spouses or investments. These customers continue to spend aggressively in specialty stores, and in trend-fashion stores such as Lord & Taylor, Bloomingdale's, Dayton's, Famous Barr, Neiman-Marcus and others. Despite a hostile economic environment, this consumer has the confidence of continued employment and income."

What about the buzzword of the 1980's: "productivity"? Forget it, says Howard Davidowitz of Ernst & Whinney. "Retailers have spent a lot of money to measure productivity, but not to increase productivity."

"The winners in the 1980's will be the merchants. You can be the best financial man in the business, keeping expenses in line, but unless you can conceptually organize your goods to get those sales, it isn't any good. You've got to merchandise your way out of trouble. Very few retailers have 'measured' themselves out of trouble. The ultimate answer is not building smaller stores."

—Stanley H. Slom

# Remodels, new building methods popular in the face of uncertain times

Under what it felt was an increasingly oppressive climate for expansion, department store giant Carter Hawley Hale Stores Inc. decided to pull in the reins on new stores this year and instead to funnel more of its \$150 million capital budget into modernizing units already in existence.

Much of the retailer's growth is being pushed back to 1982 and into the following year as mall developers' inability to finance their projects brings this year's shopping center construction to a screeching halt. "It's not anything due to our program or our desire to open the stores," explains Dean A. Beck, senior vp-real estate and construction for CHH. "Where ordinarily we open 8, 9, or 10 stores a year, we're back to 6 or 7 because of the financing of the developers."

Carter Hawley's situation is hardly unique. Whether they want to or not, scores of retail chains across the nation are being pressured into curtailing their 1981 construction programs, or into creating ways of getting around soaring costs and the slowdown in mall development. Their solutions include:

- Greater emphasis on remodels;
- More takeovers of individual stores and acquisitions of whole chains;
- Dramatic cutbacks in store size;
- Introduction of cheaper and faster construction methods;
- Creation of new store designs and shifting of the merchandise emphasis to appeal to a broader consumer base;
- Development of innovative retailing concepts.

In North Wilkesboro, N.C., Lowe's Companies Inc. plans to retrofit 50 stores (see story, this issue), improving such things as traffic flow, product adjacencies, flooring, graphics and decor. These stores are part of a massive, \$11 million program called Retail Sales Volume and Profit, or RSVP, begun in 1979 to alter nearly half of the company's 214 home centers.

Lowe's is planning a vigorous opening program this year. Where the chain built only four home centers in 1980, it intends to erect as many as 20 in '81, four of which will involve relocating thriving branches to more suitable sites within the same markets. "We've

been growing at a rate of between 10% and 20% throughout a couple of decades, and we're a growth company," says Michael D. Brown, a senior vp. "But we built virtually no new stores during the past year because of the economic situation." However, that's about to change. He predicts, "We've got light at the end of the tunnel right now."

The big push is on remodels for Drug Fair Inc. in Alexandria, Va., where more than half of its 180 stores have recently been upgraded and, in some cases, given clothing departments. Last year, the company opened eight stores, running roughly 16,500 sq. ft. each, and plans to build the same number.

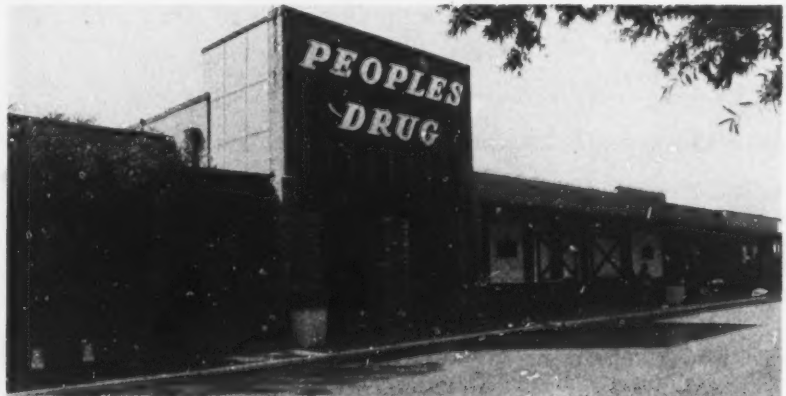
Much of Drug Fair's growth has been in strip centers, which until recently in the competitive Washington, D.C., market, have been cropping up at a healthy rate.

A spokesman for another area drug retailer says, however, those locations are no longer as plentiful as before.

Joseph A. Pollard, a vp at Peoples Drug Stores Inc., also based in Alexandria, observes: "There is nowhere near the number of new sites available now," a trend that shows "no signs of abatement." Pollard quickly adds that this slowdown in development hasn't stopped the expansion of aggressive companies that can still acquire a chain or independent or even pick up an empty site.

Moreover, other retailers are going so far as to shelve their expansion plans entirely. For example, Kuhn's-Big K Stores Corp., the 106-unit discounter headquartered in Nashville, anticipates no new stores this year, but it will proceed with plans to redo 24 existing branches. As part of a chainwide refixturing program scheduled for completion by 1983, this year's work includes the upgrading of 19 stores, complete overhaul of five and enlargement of three by 5,000 sq. ft.-10,000 sq. ft. each.

The problems in financing new



With fewer new sites available, Peoples Drug executive are looking at takeovers and empty sites as alternatives.

## Drug Stores

|             | Units Built | Units Remodeled | Capital Expenditures (000\$) |
|-------------|-------------|-----------------|------------------------------|
| Jack Eckerd | 88          | N/A             | 44,000                       |
| Walgreen's  | 60          | 60              | 30,000*                      |
| Revco       | 100         | 75              | 18,600                       |
| Rite Aid    | 90          | 90              | 25,000                       |

\* Chain Store Age Executive estimate  
N/A Not available  
Source: Chain data and annual reports



Its wealthy market has insulated Neiman-Marcus from inflation and made it the main growth vehicle for parent Carter Hawley Hale.

### Department Stores

|                       | Units<br>Built | Units<br>Remodeled | Capital<br>Expenditures<br>(000\$) |
|-----------------------|----------------|--------------------|------------------------------------|
| Associated Dry Goods* | 4              | N/A                | 50,000                             |
| Allied*               | 9              | 7                  | 95,000                             |
| R. H. Macy            | 6              | 1                  | 93,400                             |
| Carter Hawley Hale*   | 7              | 1                  | 150,000                            |
| May*                  | 5              | N/A                | 155,000*                           |

\* Chain Store Age Executive estimate  
\* Department store divisions only  
Source: Chain data and annual reports

malls won't mean a slump in everyone's expansion because many retailers will manage to grow by acquiring other chains. Besides opening up real estate possibilities in otherwise full shopping centers, adding on a diverse business enables many chains to operate a second store in malls where they already have one unit.

"We wanted to get into the higher-priced market and we wanted to get into a 'missy' operation," says Bertrand Briskin, vp-real estate at Brooks Fashion Stores Inc., which plans to increase its newly acquired T. Edwards chain from six stores to 100 over the next five years. This year's plans call for opening 8-10 of the upscale T. Edwards shops and approximately 40 traditional Brooks apparel outlets, compared with some 60 units the year before.

Of course, that pace could be slowed if rental costs keep booming because Brooks exclusively locates in malls. "The developers have got-

ten themselves into such a bind as far as construction costs and financing charges that the rents aren't attractive," Briskin points out. The situation is especially frustrating because Brooks has worked hard to keep its construction budget in line, at slightly below \$20 a square foot, in the face of rising costs. Such cost-cutting measures include using smaller air-handling units, trimming its light levels and prefabricating nearly all of its fixtures.

For additional economies, the chain has dropped its maximum store size from 3,600 sq. ft. to 3,400 sq. ft., with its minimum holding steady at about 2,700 sq. ft. Likewise, Brooks' competitor, Miller-Wohl Co. Inc., is now building stores that are 5,500 sq. ft., down from 8,000 sq. ft. The retailer expects to open 30 of these smaller units this year, a slight increase over last year's 23, which will bring it to 299 units by 1982.

Also, like Brooks, Miller-Wohl officials worry about the increasing

costs of doing business in malls, although they feel operating expenses such as CAM, utilities, merchants' associations and taxes are the sorest spots. "They used to be half of the cost of rent," recalls Philip Brous, president of Miller-Wohl. "But they were uncapped and could go up. Now they're rapidly approaching the fixed rent, and that's burdensome to small retailers."

Other companies are turning more frequently to new methods of construction that allow them to move fast should good sites suddenly arise. The Winter Haven, Fla.-based Scotty's Inc., for instance, has recently switched to all-metal buildings for its 32,600-sq.-ft. home centers and will continue using the technique for its eight units set to open this year. "The overall costs are about the same, but we can open 45-60 days quicker with metal," says Dennis W. Stults, a vp. Stores now take only five months to complete and cost about \$1.1 million-\$1.2 million, which includes land improvements and inventory.

Along with this expansion, Scotty's will complete a three-year remodel program of 50 of its 80 stores in June, widening the aisles between gondolas from 3½ ft.-4 ft. to 4½ ft.-5 ft., and adding such things as fixtures that are 18 in. taller than before, at 6 ft., and in selected instances, new floors, lighting and ceilings. The price per store runs \$5,000-\$20,000, depending on the job's scope.

Another big trend this year will be forays into new store designs that will help chains create a distinct identity and attract a broader



The Gap's current look is too young to appeal to its older shoppers; the chain's undergoing a transformation.

base of consumers. For example, Grand Union Co., which operates nearly 800 supermarkets, is firmly establishing itself as something of a maverick in the industry by building stores that incorporate many high-tech elements. The typical

### Safeway plans to push the one-stop-shopping aspect of its stores

28,000-sq.-ft. unit is devoid of signs and posters that add visual clutter, and instead relies on central metal grills for directories and to advertise specials. The grills hold neatly lettered panels and food photographs that correspond to the aisles. Walls are covered with maple or white ceramic tiles with bright red grout, and the whole contemporary look is intended to convey a sense of cleanliness and openness.

However, company officials are concerned about their ability to continue financing the expansion of these stores. "At the present time, we foresee a relatively strong program for next year," says Raymond Ayers, vp-real estate. But he adds, "what happens thereafter, I just don't know yet." With the cost of borrowing money so high that it "makes the economics of a project



Brooks Fashion Stores acquisition of T. Edwards shops has enabled the chain to get into a higher-priced market.

very difficult to support," Ayers is looking into different ways of financing the program. Some possibilities: internal funding and industrial revenue bonds.

Meanwhile, the key to survival in tough times for some retailers is to change formats to appeal to a wider consumer base. The Record Bar in

Durham, N.C., has begun adapting to shoppers 30-40 years old, instead of 20-30, by replacing its trendy, psychedelic look with oak store-fronts, thick carpets, quarry tile and parquet floors. This subdued decor is being added to 10 stores this year as part of a five-year remodel program to extend the average life of a store to 10 years and to keep in tune with the times.

Aging gracefully seems to be the solution for The Gap Stores Inc., as well, which recently completed an extensive study to learn the best way to reformat its stores so that they'll appeal to an older and wider audience. Youngish bold graphics, bright colors and huge globe lights will give way to earth tones and lots of wood in the 50-60 units The Gap hopes to open in 1981. This new appearance is also expected to give the chain access to a different caliber of shopping center. In upscale malls that cater to an affluent audience, "the surroundings are such that we don't want to be out of step," comments Stephen B. Kaplan, vp-real estate.

Out of the 50-60 new units The Gap has on the boards, 8-10 will be blown up in size to as much as 7,000 sq. ft.-15,000 sq. ft., vs. 4,000 sq. ft.-4,200 sq. ft., to house new merchandise lines and deeper assortments in freestanding and strip center situations. The giant units serve two purposes, Kaplan explains: They enable the retailer to broaden its base more than it could in a smaller store, and they offer an

### General Merchandise

|                 | Units<br>Built | Units<br>Remodeled | Capital<br>Expenditures<br>(000\$) |
|-----------------|----------------|--------------------|------------------------------------|
| Sears           | 34             | N/A                | 288,000*                           |
| J. C. Penney    | 49             | N/A                | 300,000                            |
| Montgomery Ward | 15             | 6                  | 60,000                             |
| T.G. & Y.       | 47             | 7                  | 17,000                             |

\* Capital expenditures for Sears' new and enlarged store facilities, 1980-82  
N/A Not available  
Source: Chain data and annual reports

### Specialty

|                 | Units<br>Built | Units<br>Remodeled | Capital<br>Expenditures<br>(000\$) |
|-----------------|----------------|--------------------|------------------------------------|
| Radio Shack     | 225            | 150                | 40,000                             |
| Kay's Corp.     | 34             | 15-20              | 6,000                              |
| House of Fabric | 20-25          | 25-30              | 4,500*                             |
| Hanover         | 30-36          | 8                  | 3,000                              |
| B. Dalton       | 70             | 10                 | N/A                                |

N/A Not available  
\* Chain Store Age Executive estimate  
Source: Chain data and annual reports



The Scotty's chain has switched to all-metal construction, enabling it to open units up to two months quicker.

alternative to the slowdown in mall construction with new kinds of sites. As far as regionals, The Gap is going back and examining sites in existing malls that it passed over earlier. With these strategies in place for 1981, "the availability [of malls] still exceeds our needs," Kaplan says.

Apparel merchants aren't the only ones looking into other sites. The nearly 90-unit Perry Drug Stores Inc. in Pontiac, Mich., is now considering freestanding buildings—instead of strip centers—for some of its 10 stores anticipated this year. Additionally, given the stabilization of Perry's primary trade area, Detroit, and the city's subsequent crunch in new development, company officials expect much of the action to be in existing sites this year.

Still other retailers are getting around the building downturn by pushing new concepts in retailing that fill untapped niches. Safeway Stores Inc., for one, continues to enlarge its supermarkets every year, most recently, from 38,830 sq. ft. last year to 39,890 sq. ft. this year, to house amenities such as bakeries, delis, pharmacies, natural food centers, cheese shops and nonfood departments, all of which spell one-stop shopping convenience. Safeway will open 140 of these units this year compared with 155 in 1980, and it will shut an undetermined number of its less profitable stores.

A void of retailers offering traditional clothes for women is the main explanation given for the formation last year of Thimbles, a three-store operation owned by BATUS Inc. of Louisville, parent of Saks Fifth Av-

### Home Centers

|             | Units<br>Built | Units<br>Remodeled | Capital<br>Expenditures<br>(000\$) |
|-------------|----------------|--------------------|------------------------------------|
| 84 Lumber   | 70             | N/A                | 35,000                             |
| Scotty's    | 8              | 16                 | N/A                                |
| Hechinger's | N/A            | N/A                | N/A                                |
| Wickes      | 10             | 15-20              | 15,000                             |

N/A Not available  
Source: Chain data and annual reports

enue and Gimbels among others. The chain will grow to nine units this year, and will keep on expanding thereafter until it reaches a hefty 200 stores by 1990. The reason for such unbridled growth: Thimbles goes after "the traditional and

updated woman who currently shops in department stores," according to Robert Suslow, president of the BATUS retail division. "This approach is in contrast to the current concept of the apparel specialty store industry, which is es-



Lowe's ambitious retrofit plan, part of an \$11 million program, aims, in part, to improve traffic flow, decor and flooring.

entially directed to trendy, young or contemporary customers."

The 100-store Toys "R" Us Inc. has managed to grow despite a flat birthrate by offering a broader selection, deeper inventory and lower prices than its competitors, a strategy that it will continue this year. "In the 70's we were faced with a diminishing growth of demographics—kids," explains Charles Lazarus, the chain's president. "We expanded our demographics by offering a broader mix like books for children, furniture and more sophisticated items like electronic, video and radio-controlled toys."

Toys "R" Us's expansion policy calls for a new market a year. This year will be no exception, with plans to break into Philadelphia with several of its 16-20 units slated

### Jewelry chains such as J. B. Robinson are going ahead with expansion

for construction. The stores are next to regional malls for easy access, and they average 43,000 sq. ft. Some 25,000 sq. ft. is sell space, which is roughly five times greater than the footage allotted to toys by most discounters, Lazarus claims.

Fortunately, there are those retailers who aren't concerned about expansion prospects this year. Jewelry chains, for example, whose customers tend to be more affluent, are pursuing healthy growth patterns. J. B. Robinson Jewelers,

with 63 stores in eight states, plans an accelerated expansion program. With the financial backing of its wealthy new parent, W. R. Grace & Co., Robinson has recently acquired the Hatfield Jewelers chain in Flint, Mich., and is negotiating with several other retailers for similar deals.

Washington, D.C., where Robinson has eight stores, offers some of the best site possibilities, "because of its growth and stability in income," says Larry J. B. Robinson, the chain's president, who adds, "Increasing interest in jewelry and high-taste levels among working women helps to strengthen the market."

This immunity from inflation by the rich is also why Carter Hawley Hale will expand its exclusive Neiman-Marcus division more than any other, with three units in '81. The

corporation is in the midst of a program to upgrade the merchandise mix and price points in its other department store divisions.

Still others, concentrated in markets where the economic and construction downturns are having a minimal impact on expansion, are bullish on their 1981 programs. One such example is the Los Angeles-based Hartfield-Zodys Inc., which opened four stores last year and plans five in 1981, making it a 45-unit concern. Nine extensive remodels were completed last year, and five or six are slated for this year. Likewise, Smitty's Stores, whose discount branches are all clustered around Phoenix, will add on three stores this year, compared with only two last year.

Finally, there are those going full-steam ahead with the anticipation of an economic recovery sometime in the next few years. G. C. Murphy Co., for instance, has six stores on this year's agenda, and as many as 8-10 for the year after, compared with only four openings in 1980. This drive follows the extensive pruning of 68 money-losing units in 1978 as part of the company's attempt to "refine markets and close fringe" units, says a Murphy official.

For all their fears and uncertainties about 1981, however, many retailers predict even tougher going next year. "People haven't made all their commitments yet for 1982," explains Frank E. Wilson, vp-construction and planning for Allied Stores Corp., which built nine department stores and six specialty units last year, and which will open eight of the larger branches this year. "Projects for 1981 are already committed and building, so any effect of [a construction stoppage] is really more likely to involve 1982."

—Lynne Bershad Mignoli

### Supermarkets

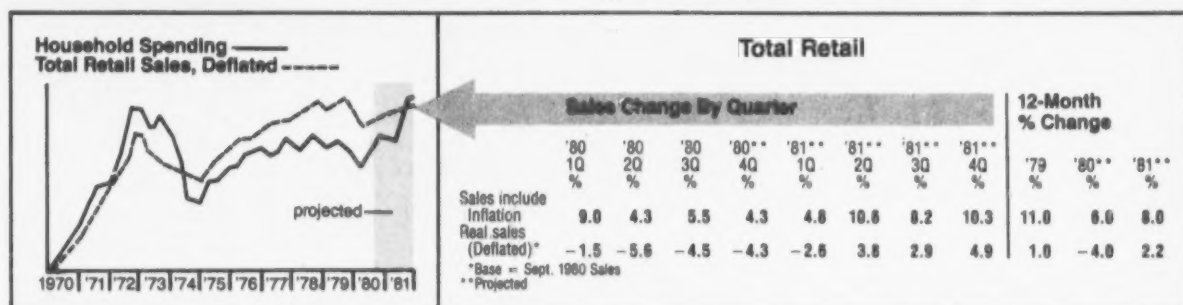
|              | Units Built | Units Remodeled | Capital Expenditures (000\$) |
|--------------|-------------|-----------------|------------------------------|
| Albertson's† | 30          | 21              | 120,000                      |
| Publix       | 10          | 12              | N/A                          |
| A&P          | N/A         | 60*             | 90,000*                      |
| Kroger†      | 110         | 54              | 250,000*                     |
| Winn Dixie†  | 65          | 80              | 87,000                       |

\* Chain Store Age Executive estimate  
† Supermarkets only  
N/A Not available  
Source: Chain data and annual reports



With an eye toward older consumers, Durham, N.C.-based Record Bar is changing to a more subdued look with thick carpeting.

# Retail sales slide ending this quarter



Through the 1970s, GAF (general merchandise, apparel, furniture/appliance store) sales outperformed the total retail sector. Apparel, in fact, is by far, the strongest sector in the GAF grouping. As the leading indicators in

the L/F econocycle index point up, general merchandise retailing has underperformed since 1978 and together with furniture & appliances has been falling sharply since 1979.

The L/F econocycle projection is for

continued growth of GAF—although on a slower track. The bottom has been hit and passed and through '81, from a low level of activity, a fairly strong recovery in this large retail sector is projected. (General merchandise sales, on the other hand, are expected to plateau next year in real sales terms).

Food stores have come along stronger than eating & drinking (food service, fast food, restaurants) units since '79. Last year, while supermarket sales rose strongly, food service showed a significant downturn. Supermarket sales are projected to move along a plateau until mid-'81 and then resume upward growth, according to L/F Econocycle projections. After an initial decline, a minor recovery for eating establishments suggests little more than a plateau through the end of 1981.



| Sales/Include Inflation |                     |             |                   |                           |                              |                |                            |            |
|-------------------------|---------------------|-------------|-------------------|---------------------------|------------------------------|----------------|----------------------------|------------|
|                         | Total Retail Stores | Food Stores | Eating & Drinking | Building Materials Stores | Furniture & Appliance Stores | Apparel Stores | General Merchandise Stores | GAF Stores |
| 1980                    |                     |             |                   |                           |                              |                |                            |            |
| 1Q                      | 9.0                 | 10.5        | 8.6               | 7.6                       | 9.3                          | 8.8            | 5.8                        | 8.2        |
| 2Q                      | 4.3                 | 10.0        | 7.9               | -8.9                      | 1.4                          | 4.8            | 6.5                        | 4.5        |
| 3Q                      | 5.5                 | 11.7        | 7.8               | -12.4                     | 0.1                          | 4.6            | 6.1                        | 3.9        |
| 4Q                      | 4.3                 | 9.5         | 2.5               | -12.4                     | 0.9                          | 2.1            | 7.1                        | 2.9        |
| 1981                    |                     |             |                   |                           |                              |                |                            |            |
| 1Q                      | 4.8                 | 9.3         | 2.1               | -6.3                      | 0.2                          | 4.1            | 6.2                        | 3.7        |
| 2Q                      | 10.6                | 9.6         | 5.8               | 8.7                       | 7.1                          | 7.7            | 8.2                        | 7.7        |
| 3Q                      | 8.2                 | 8.0         | 8.0               | 4.9                       | 5.8                          | 6.0            | 7.6                        | 6.4        |
| 4Q                      | 10.3                | 9.0         | 9.6               | 2.2                       | 9.7                          | 6.2            | 8.4                        | 7.4        |
| % change 12 mo.         |                     |             |                   |                           |                              |                |                            |            |
| 1979                    | 11.0                | 11.0        | 9.0               | 14.0                      | 14.0                         | 9.0            | 10.0                       | 10.0       |
| 1980*                   | 6.0                 | 10.0        | 6.5               | -7.0                      | 3.0                          | 5.0            | 6.0                        | 4.0        |
| 1981*                   | 8.0                 | 9.0         | 6.0               | 2.0                       | 6.0                          | 6.0            | 7.5                        | 6.0        |
| Real Sales (Deflated)*  |                     |             |                   |                           |                              |                |                            |            |
| 1980                    |                     |             |                   |                           |                              |                |                            |            |
| 1Q                      | -1.5                | -0.7        | -1.4              | -1.3                      | 3.6                          | 1.0            | 1.6                        | 1.9        |
| 2Q                      | -5.6                | 2.6         | -1.3              | -17.4                     | -4.2                         | 1.9            | -2.2                       | -1.7       |
| 3Q                      | -4.5                | 4.3         | -1.6              | -21.0                     | -6.6                         | 0.6            | -3.1                       | -3.1       |
| 4Q**                    | -4.3                | 2.9         | 5.0               | -20.6                     | -5.2                         | 2.0            | -4.6                       | -3.3       |
| 1981                    |                     |             |                   |                           |                              |                |                            |            |
| 1Q**                    | -2.6                | 2.6         | -5.0              | -14.3                     | -5.1                         | 2.0            | -1.9                       | -1.7       |
| 2Q**                    | 3.6                 | 1.0         | -2.3              | 0.3                       | 1.2                          | 3.6            | 1.8                        | 2.1        |
| 3Q**                    | 2.9                 | 0.4         | -0.1              | -3.4                      | 0.3                          | 3.7            | 0.6                        | 1.2        |
| 4Q**                    | 4.0                 | 1.6         | 0.8               | -5.8                      | 3.7                          | 4.2            | -0.1                       | 1.6        |
| % change 12 mos.        |                     |             |                   |                           |                              |                |                            |            |
| 1979                    | 1.0                 | 3.0         | -1.0              | 6.0                       | 8.0                          | 6.0            | 3.0                        | 4.0        |
| 1980**                  | -4.0                | 2.0         | -2.0              | -15.0                     | -3.0                         | 1.0            | -2.0                       | -1.5       |
| 1981**                  | 2.2                 | 1.5         | -1.5              | -6.0                      | —                            | 5.0            | —                          | 2.0        |

\*Base = Sept. 1980 Sales    \*\*Projected

## About Econocycle

The source for the L/F Econocycle index (charts above, figures facing) is the Applied Economic Research Unit, located in The Hague, Holland. This unit does consulting and research programs for Government and major corporations on three continents today. Its forecasting methods are based on the Econocycle System, a computerized technique designed by the Econostat team of economists.

Because of the changing pace of inflation in the United States, retail sales figures in the L/F Econocycle projections have been adjusted to take account of inflation. All statistics are shown in real terms. The graph (above) represents the trend cycle (after a deflator has been applied for inflation). All data has been seasonally adjusted and smoothed—and is updated each month. The source for current sales and the deflator series is the U.S. Dept. of Commerce.

Where an Index Base is indicated, all data is converted to index numbers, starting from a common base (=100) in order to establish meaningful performance comparisons.

Each month, the L/F Econocycle projects trends based on previous sales cycles. Since outside events (interest rate, money supply, credit) can modify the cyclical path and momentum of sales-trends at any point in time, the L/F Econocycle constantly monitors and updates new data and processes these up-to-date trend-charts each month.